

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF EAST GRAND RAPIDS	County KENT
Audit Date 6/30/05	Opinion Date 9/17/05	Date Accountant Report Submitted to State: 12/9/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

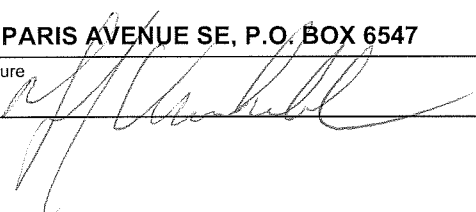
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASL GU).			✓

Certified Public Accountant (Firm Name) REHMANN ROBSON			
Street Address 2330 EAST PARIS AVENUE SE, P.O. BOX 6547	City GRAND RAPIDS	State MI	ZIP 49516-6547
Accountant Signature 		Date 12/9/05	



EAST GRAND RAPIDS, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

CITY OF EAST GRAND RAPIDS

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements:	
Governmental-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to the Net Assets of Governmental Activities on the Statement of Net Assets	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	18
Statement of Net Assets – Proprietary Funds	19
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	20
Statement of Cash Flows – Proprietary Funds	21
Statement of Net Assets – Fiduciary Funds	22
Notes to Financial Statements	23-38
Combining and Individual Fund Statements and Schedules:	
General Fund:	
Schedule of Revenues and Expenditures - Budget and Actual	39-42
Nonmajor Governmental Funds:	
Combining Balance Sheet	43
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	44
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual – Major Street Fund	45
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual – Local Street Fund	46
Internal Service Funds:	
Combining Statement of Net Assets	47
Combining Statement of Revenues, Expenses and Changes in Net Assets	48
Combining Statement of Cash Flows	49

(continued)

CITY OF EAST GRAND RAPIDS

TABLE OF CONTENTS (CONTINUED)

	<u>PAGE</u>
Schedule of Indebtedness	50-51
Internal Control and Compliance	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	52



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

September 17, 2005

Honorable Mayor and Members of
the City Council
City of East Grand Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Grand Rapids, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of East Grand Rapids, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City of East Grand Rapids, Michigan as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 17, 2005, on our consideration of the City of East Grand Rapids' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The objective of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of East Grand Rapids' basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of East Grand Rapids' basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Lehmann Johnson".

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of East Grand Rapids' financial performance provides an overview of the City's financial activities for the year ended June 30, 2005. Please read it in conjunction with the City's financial statements which begin on page 11. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- The City's net assets increased \$314,166 (or 1.3%). The governmental net assets increased by \$27,682 (or 0.2 %) and the business-type net assets increased by \$286,484 (or 3.5 %).
- Total expenses of all of the City's programs was \$12,247,269, an increase of \$1,006,643 (or 8.9%) from the prior year. The governmental expenses increased by \$1,101,262 (or 12.3%) and the business-type expenses decreased by \$94,619 (or 4.0%).
- Total revenues, including all program and general revenues were \$12,637,435, an increase of \$427,494 (or 3.5%) from the prior year. The governmental revenues increased by \$282,851 (or 2.9%) and the business-type revenues increased by \$143,843 (or 5.5%).
- The City received a grant in the amount of \$96,825 from the State of Michigan for the completion of the Reeds Lake Bike Trail Phase I.
- The City received a donation of \$90,000 from the Wege Foundation towards the completion of a bike trail around Reeds Lake.
- The City issued \$8,740,000 of Unlimited Tax General Obligation Bonds to finance the renovation of the City Hall and Library complex.
- The City issued \$3,140,000 of Michigan Transportation Fund Bonds to finance a streetscape project on Wealthy Street in Gaslight Village.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 11-13) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 5. One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the City's net assets and changes in them. The reader can think of the City's net assets - the difference between assets and liabilities - as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's capital assets (roads, buildings, water and sewer lines) to assess the overall health of the City.

In the Statement of Net Assets and The Statement of Activities, the City is divided into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here, including the public safety, general administration, parks and recreation and streets. Property taxes and State Shared Revenues finance most of these activities.
- Business-type activities – The City charges a fee to customers to help it cover all or most of the cost of certain services provided. The City's water and sewer system is reported here.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 8. The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Commission has established several other funds to help it control and manage money for particular purposes. The City's two types of funds, governmental and proprietary, use different accounting approaches.

- Governmental Funds – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps

the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.

- **Proprietary Funds** – When the City charges customers for the services it provides whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds, such as the City's Equipment Revolving Fund and the Health Care Fund (the other component of proprietary funds) to report activities that provide supplies and services to the City's other programs and activities.

THE CITY AS A WHOLE

The City's combined net assets changed from a year ago, increasing from \$23,944,091 to \$24,258,257. Our analysis focuses on the net assets and changes in net assets of the City's governmental and business-type activities.

Table 1
Net Assets (in thousands) as of June 30, follows:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$16,750	\$ 5,827	\$1,682	\$2,195	\$18,432	\$ 8,022
Capital assets	14,213	12,708	8,094	7,339	22,307	20,047
Total assets	30,963	18,535	9,776	9,534	40,739	28,069
Long-term debt outstanding	13,428	1,719	895	1,059	14,323	2,778
Other liabilities	1,641	950	517	397	2,158	1,347
Total liabilities	15,069	2,669	1,412	1,456	16,481	4,125
Net assets						
Invested in capital assets						
Net of related debt	10,626	11,012	7,116	7,340	17,742	18,352
Restricted	1,576	1,938	-	-	1,576	1,938
Unrestricted	3,692	2,916	1,248	738	4,940	3,654
Total net assets	<u>\$15,894</u>	<u>\$15,866</u>	<u>\$8,364</u>	<u>\$8,078</u>	<u>\$24,258</u>	<u>\$23,944</u>

Net assets of the City's governmental activities increased by 0.2 percent (\$15,893,732 compared to \$15,866,050). Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased \$879,889. Restricted net assets, those restricted mainly for capital projects and special purposes such as street cleaning or maintenance decreased by \$466,228. The big changes in these areas are due to two bonds issued during the past fiscal year.

The net assets of our business-type activities increased by 2.3 percent (\$8,364,525 compared to \$8,078,041).

Table 2
Changes in Net Assets (in thousands) as of June 30, follows:

	Governmental Activities		Business-type Activities		Total Primary	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues:						
Charges for services	\$ 1,012	\$1,094	\$2,589	\$2,460	\$ 3,601	\$ 3,554
Operating grants and contributions	775	745			775	745
Capital grants and contributions	97	614			97	614
General revenues						
Property taxes	6,471	5,997			6,471	5,997
Property taxes For debt service						
State shared	976	992			976	992
Interest	241	118	17	6	258	124
Local sources	268	105			268	105
Miscellaneous	186	78	3		189	78
Total revenues	\$10,026	\$9,743	\$2,609	\$2,466	\$12,635	\$12,209

	Governmental Activities		Business-type Activities		Total Primary	
	2005	2004	2005	2004	2005	2004
Expenses						
Governmental activities						
General government	\$ 1,725	\$ 1,865	\$ -	\$ -	\$ 1,725	\$ 1,865
Public safety	3,362	3,487			3,362	3,487
Public works	3,007	1,915			3,007	1,915
Recreation and culture	1,243	1,332			1,243	1,332
Other functions	192	299			192	299
Interest on long-term debt	470	-			470	
Water and sewer	-	-	2,247	2,342	2,247	2,342
Transfers	-	-	76		76	
Total expenses	9,999	8,898	2,323	2,518	12,322	11,240
Changes in net assets	27	845	286	124	314	969
Net assets at beginning of year	15,866	15,021	8,078	7,954	23,944	22,975
Net Assets at end of year	\$15,893	\$15,866	\$8,364	\$8,078	\$24,258	\$23,944

Governmental Activities

Revenues for the City's governmental activities increased \$283,651 while expenses increased \$1,101,262. The big increase in expenses is due to the Municipal Complex project and the Wealthy Streetscape project.

Property taxes increased \$475,028. This increase is due to additional taxes levied for the voter approved General Obligation bond issue for the renovation of the Municipal Complex. State Shared revenues decreased by \$16,204.

Increases in expenses were in Public Works due to the Municipal Complex project and the streetscape project. Increases are also in interest on long-term debt due to two new bond issues.

Business-type Activities

Revenues for the business-type activities increased by \$143,843. The increases are due to a dry and hot summer compared to a cool and wet summer the previous year. As the City's water rates and readiness-to-serve rates are based upon water usage, these revenues will increase in a dry summer.

Expenses decreased in the business-type activities by \$94,619. Wholesale sewer charges from the City of Grand Rapids were down due to a dry summer.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

At the end of fiscal year 2005 the governmental funds reported a *combined* fund balance of \$13,752,030 which is \$9,938,181 more than last year. The large increase is due to the addition of the Municipal Complex Fund and the Streetscape Fund. These funds were established with the proceeds of the bond issues. The General Fund fund balance increased by \$249,043. The undesignated portion of the General Fund fund balance actually increased by \$316,028. This increase is net of an adjustment to the City's books for compensated absences. Previously the City recorded outstanding vacation and sick leave balances as a long-term liability in the General Fund. The books have been adjusted to record only short-term compensated absences as a liability of the General Fund. The General Fund Undesignated Fund Balance at June 30, 2005 is \$2,030,947 which is 24.48% of 2004-2005 operating expenditures. Available fund balance will be used to cover a budget deficit in 2005-2006 as well as increasing natural gas and fuel charges. The Major Street Fund fund balance increased by \$21,505. The Local Street Fund fund balance decreased \$159,984 due to the completion of the Bike Trail project.

General Fund Budgetary Highlights

Actual expenditures in the General Fund were \$446,219 below final budget amounts. There were no significant variances from budget to actual as most of the savings were spread across all departments, as the City Manager had requested all city staff to be conservative in their spending due to current economic conditions.

Revenues were \$127,923 more than the amended budget. The most significant increase in revenues from the original budget was in State Shared revenues. During the budget process State Shared revenues were decreased by \$100,000 in anticipation of continued cuts by the State of Michigan. Actual cuts by the State were less than anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005 the City had \$22,306,555 invested in a broad range of capital assets including land, buildings, public safety equipment, roads, parks and water and sewer lines. This amount includes a net increase (including additions and deductions) of \$2,258,973 or 11.3% over last year. The increase is due to Construction in Progress on the Municipal Complex and the Wealthy Streetscape. Additional information on capital assets can be found in note 4 on pages 32-33 of the notes to the financial statements.

Long-term Debt

At June 30, 2005 the City had \$14,463,385 in long-term debt outstanding. This is an increase of \$11,708,741 from last year. The increase is due to the issuance of \$8,740,000 of Unlimited Tax General Obligation Bonds for the Municipal Complex and \$3,140,000 of Michigan Transportation Fund Bonds. Other outstanding debt includes \$1,665,000 for Wealthy Pool Unlimited Tax General Obligation Bonds and \$977,773 in Drain Bonds for business-type activities. Additional information on long-term debt can be found in Note 7 on pages 35 and 36 of the notes to the financial statements.

The State of Michigan has statutory and constitutional debt provisions that allow for debt limits of 10 percent of the City's assessed value. This means that the City could have debt outstanding of \$59.5 million. The City is well below statutory and constitutional debt limits with outstanding debt of \$14.5 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The budget for next year includes a lower millage rate than was levied for the year ended June 30, 2006. In fiscal year end June 30, 2005 the millage rate levied was 14.0128 and in fiscal year ended June 30, 2006 the millage rate levied is 13.7942. These rollbacks are due to the City being in a headlee rollback situation. Headlee rollbacks will continue as long as taxable values increase more than inflation.

Another factor influencing property tax revenues is Proposal A. The statewide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties may increase in value by less than inflation, the mathematical result of this is that the total taxable value may grow less than inflation. In addition, the City of East Grand Rapids is a land-locked community so there are seldom new additions adding value to the tax roll other than remodeling or renovation of properties.

A developer has purchased a large portion of the City's downtown Gaslight Village property and has begun a \$50 million dollar renovation and improvement that includes both commercial and residential properties. It is anticipated that this project will be completed over the next five to seven years. In connection with this redevelopment the City is completing a Streetscape project of Wealthy Street which is the main street of the Gaslight Village district. This project is being financed by the \$3,140,000 Michigan Transportation Fund Bonds.

The City is currently renovating the Municipal Complex including City Hall and the Library with the proceeds of the \$8,740,000 general obligation bonds. The project is financed by the bond issue and over \$1 million in private donations. This project is anticipated to be completed by fall of 2006.

The City is self funded for Health Care benefits. Health Care costs have been increasing 15 to 30% each of the past five years. At the end of the year ended June 30, 2004, the Health Care Fund had a fund balance of only \$8,882. Beginning January 1, 2005 the City implemented a Consumer Directed Health Plan for all employees. This plan has a significantly higher deductible for each employee and larger co-pays for out-of-network services. During 2004, co-pays on prescription benefits were increased. These changes were made in an effort to control increasing costs of health care benefits. At the end of fiscal year end June 30, 2005 total health care costs were \$80,448 less than last fiscal year. As contribution rates were also increased during the last fiscal year the Health Care Fund ended the year with an increase to fund balance of \$148,053. This is a much more comfortable reserve in this fund as the City is self-funded for health care benefits and can experience fluctuations from year to year.

The City has responded to the economic downturn and pressure on revenues by trying to keep program expenses constant, increasing some user fees, issuing debt for capital projects and making changes to employee benefits.

The General Fund budget for next year is \$221,800 more than last fiscal year. Budgeted expenditures exceed budgeted revenues by \$358,800. The excess will be funded from available fund balance. The City ended the fiscal year June 30, 2005 with an undesignated fund balance of over 24 percent of budgeted operating expenditures. The General Fund budget also includes a transfer to the Street Funds in the amount of \$560,000 for street construction. This is the dollar amount of the one and one-third mills that the City Commission chooses to dedicate annually to road projects. \$280,000 of the \$560,000 will be used to pay the debt service of the Michigan Transportation Fund bonds. Currently the City's general fund revenues are sufficient to meet operating expenditures.

As for the City's business-type activities, the budget for next year holds water and sewer rates constant. Wholesale commodity rates have increased only moderately and the current rate structure allows for the targeted capital improvements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director's Office at 750 Lakeside Drive, SE, Grand Rapids, MI 49506.

CITY OF EAST GRAND RAPIDS

STATEMENT OF NET ASSETS

JUNE 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,866,048	\$ 963,630	\$ 3,829,678
Investments	13,198,992	304,273	13,503,265
Accounts receivable	498,792	373,298	872,090
Special assessment receivable	68,734	-	68,734
Prepaid items and other assets	51,661	-	51,661
Inventory	66,115	41,313	107,428
Capital assets			
Land	2,124,000	-	2,124,000
Construction in progress	2,061,629	152,749	2,214,378
Drain infrastructure, net	-	768,838	768,838
Property, plant, and equipment, net	10,027,104	7,172,235	17,199,339
Total assets	30,963,075	9,776,336	40,739,411
Liabilities			
Accounts payable	1,262,352	390,600	1,652,952
Accrued liabilities	315,690	43,438	359,128
Unearned revenue	14,729	-	14,729
Noncurrent liabilities:			
Due within one year	250,000	83,181	333,181
Bond issuance costs, net	(201,156)	-	(201,156)
Due in more than one year	13,427,728	894,592	14,322,320
Total liabilities	15,069,343	1,411,811	16,481,154
Net Assets			
Invested in capital assets, net of related debt	10,626,317	7,116,049	17,742,366
Restricted for:			
Major Streets	916,605	-	916,605
Local Streets	306,067	-	306,067
Debt service	105,474	-	105,474
Capital projects	143,645	-	143,645
Unrestricted	3,795,624	1,248,476	5,044,100
Total net assets	\$ 15,893,732	\$ 8,364,525	\$ 24,258,257

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 1,708,262	\$ 15,966	\$ -	\$ -	\$ (1,692,296)
Public safety	3,378,644	150,484	43,226	-	(3,184,934)
Public works	3,007,175	160,154	731,584	96,825	(2,018,612)
Recreation and culture	1,242,906	685,814	-	-	(557,092)
Other governmental functions	192,361	-	-	-	(192,361)
Interest on long-term debt	470,490	-	-	-	(470,490)
Total governmental activities	<u>9,999,838</u>	<u>1,012,418</u>	<u>774,810</u>	<u>96,825</u>	<u>(8,115,785)</u>
Business-type activities:					
Water and Sewer	<u>2,247,431</u>	<u>2,589,300</u>	<u>-</u>	<u>-</u>	<u>341,869</u>
Total primary government	<u>\$ 12,247,269</u>	<u>\$ 3,601,718</u>	<u>\$ 774,810</u>	<u>\$ 96,825</u>	<u>\$ (7,773,916)</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

STATEMENT OF ACTIVITIES (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (8,115,785)	\$ 341,869	\$ (7,773,916)
General revenues:			
Property taxes	6,471,376	-	6,471,376
State shared revenues	976,265	-	976,265
Local sources	267,522	-	267,522
Interest earnings	241,814	17,118	258,932
Other general revenues	110,490	3,497	113,987
Transfers - internal activities	76,000	(76,000)	-
 Total general revenues and transfers	 8,143,467	 (55,385)	 8,088,082
 Change in net assets	 27,682	 286,484	 314,166
Net assets, beginning of year	15,866,050	8,078,041	23,944,091
 Net assets, end of year	 <u>\$ 15,893,732</u>	 <u>\$ 8,364,525</u>	 <u>\$ 24,258,257</u>

(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2005

<u>ASSETS</u>	GENERAL FUND	MUNICIPAL COMPLEX	STREETSCAPE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash and cash equivalents	\$ 384,801	\$ 227,802	\$ 377,118	\$ 889,826	\$ 1,879,547
Investments	2,107,428	7,664,076	2,370,250	520,221	12,661,975
Accounts receivable	75,950	-	-	-	75,950
Special assessments receivable	-	-	-	68,734	68,734
Prepaid expenditures	43,354	-	-	-	43,354
Due from other governmental units	313,569	-	-	109,273	422,842
<u>TOTAL ASSETS</u>	\$ 2,925,102	\$ 7,891,878	\$ 2,747,368	\$ 1,588,054	\$ 15,152,402
 <u>LIABILITIES AND FUND BALANCES</u>					
LIABILITIES					
Accounts payable	\$ 343,703	\$ 559,617	\$ 237,944	\$ 17,034	\$ 1,158,298
Accrued liabilities	156,885	-	-	8,882	165,767
Deferred revenue	14,729	-	-	61,578	76,307
TOTAL LIABILITIES	515,317	559,617	237,944	87,494	1,400,372
FUND BALANCES					
Reserved for:					
Debt Service	-	-	-	105,474	105,474
Bike trail phase II	-	-	-	103,287	103,287
Unreserved					
Designated for public safety - drug seizures	186,710	-	-	-	186,710
Designated for cable community	52,128	-	-	-	52,128
Designated for municipal complex	140,000	-	-	-	140,000
Undesignated	2,030,947	7,332,261	2,509,424	-	11,872,632
Undesignated, reported in:					
Special Revenue Funds	-	-	-	1,222,672	1,222,672
Capital Project Funds	-	-	-	69,127	69,127
TOTAL FUND BALANCES	2,409,785	7,332,261	2,509,424	1,500,560	13,752,030
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 2,925,102	\$ 7,891,878	\$ 2,747,368	\$ 1,588,054	\$ 15,152,402

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

*Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets*

JUNE 30, 2005

Fund balances - total governmental funds	\$ 13,752,030
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statements.

Add - capital assets, net of accumulated depreciation	10,027,104
Add - land and construction in progress	4,185,629

Certain assets, such as special assessments receivable are not due and receivable in the current period and therefore are offset with deferred revenue in the fund statements.

Add - deferred revenue on special assessments receivable	61,578
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities

Add - net assets of governmental activities accounted for in internal service funds	2,866,289
Deduct - Capital assets accounted for in internal service funds, net of accumulated depreciation	(1,384,028)

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the fund statements:

Deduct - bonds payable	(13,485,612)
Add - bond issuance costs	201,156
Deduct - compensated absences	(192,116)
Deduct - accrued interest on long-term liabilities	(138,298)

Net assets of governmental activities	<u>\$ 15,893,732</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2005

	GENERAL FUND	MUNICIPAL COMPLEX	STREETSCAPE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Taxes	\$ 6,099,574	\$ -	\$ -	\$ 371,802	\$ 6,471,376
Licenses and permits	203,583	-	-	-	203,583
Intergovernmental revenue					
Federal	-	-	-	96,825	96,825
State	1,019,491	-	-	731,584	1,751,075
Local	-	-	2,000	90,000	92,000
Charges for services	895,094	-	-	-	895,094
Fines and penalties	47,970	-	-	-	47,970
Special assessments	-	-	-	51,285	51,285
Interest and rentals	150,139	135,579	6,066	21,764	313,548
Miscellaneous	69,672	-	-	104	69,776
TOTAL REVENUES	8,485,523	135,579	8,066	1,363,364	9,992,532
EXPENDITURES					
Current:					
Legislative	25,945	-	-	-	25,945
General government	1,613,079	166,431	62,210	-	1,841,720
Public safety	3,554,552	-	-	-	3,554,552
Public works	894,943	-	-	1,929,719	2,824,662
Culture and recreation	1,068,110	-	-	-	1,068,110
Other governmental functions	176,612	-	-	-	176,612
Debt Service:					
Principal	-	-	-	90,000	90,000
Interest	-	-	-	351,192	351,192
Capital outlay	107,370	1,317,756	610,235	-	2,035,361
TOTAL EXPENDITURES	7,440,611	1,484,187	672,445	2,370,911	11,968,154
REVENUES OVER (UNDER) EXPENDITURES	1,044,912	(1,348,608)	(664,379)	(1,007,547)	(1,975,622)
OTHER FINANCING SOURCES (USES)					
Proceeds from issuance of bonds	-	8,740,000	3,140,000	-	11,880,000
Premium on bonds	-	-	33,803	-	33,803
Transfers in	59,131	-	-	855,000	914,131
Transfers out	(855,000)	(59,131)	-	-	(914,131)
TOTAL OTHER FINANCING SOURCES (USES)	(795,869)	8,680,869	3,173,803	855,000	11,913,803
NET CHANGES IN FUND BALANCES	249,043	7,332,261	2,509,424	(152,547)	9,938,181
FUND BALANCES, BEGINNING OF YEAR, as restated	2,160,742	-	-	1,653,107	3,813,849
FUND BALANCES, END OF YEAR	\$ 2,409,785	\$ 7,332,261	\$ 2,509,424	\$ 1,500,560	\$ 13,752,030

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

FOR THE YEAR ENDED JUNE 30, 2005

Net changes in fund balances - total governmental funds \$ 9,938,181

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	2,334,324
Deduct - depreciation expense	(646,208)
Deduct - loss on disposition of capital assets	(1,788)

Special assessments receivable are long-term in nature and are collectable over several years. However, the current receipts are reflected as revenues on the fund statements

Add - special assessment revenue	34,988
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets

Add - principal payments on long-term liabilities	90,000
Add - bond issuance costs capitalized	166,431
Deduct - bond proceeds	(11,880,000)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Deduct - increase in accrued interest on bonds	(119,298)
Add - decrease in the accrual for compensated absences	1,089
Deduct - amortization of bond issuance costs	(5,548)

An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Add - income from governmental activities in internal service funds	<u>115,511</u>
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Change in net assets of governmental activities	<u>\$ 27,682</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 6,099,000	\$ 6,099,000	\$ 6,099,574	\$ 574
Licenses and permits	148,000	148,000	203,583	55,583
State revenues	897,100	897,100	1,019,491	122,391
Charges for services	1,023,100	1,023,100	895,094	(128,006)
Fines and penalties	51,000	51,000	47,970	(3,030)
Interest and rentals	121,200	121,200	150,139	28,939
Miscellaneous	18,200	18,200	69,672	51,472
TOTAL REVENUES	8,357,600	8,357,600	8,485,523	127,923
EXPENDITURES				
Current				
Legislative	25,100	25,100	25,945	(845)
General government	1,675,900	1,684,800	1,613,079	71,721
Public safety	3,619,400	3,619,400	3,554,552	64,848
Public works	972,900	972,900	894,943	77,957
Culture and recreation	1,250,400	1,250,400	1,068,110	182,290
Other governmental functions	183,100	183,100	176,612	6,488
Capital outlay	137,000	151,130	107,370	43,760
TOTAL EXPENDITURES	7,863,800	7,886,830	7,440,611	446,219
REVENUES OVER (UNDER) EXPENDITURES	493,800	470,770	1,044,912	574,142
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	59,131	59,131
Transfers (out)	(855,000)	(855,000)	(855,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	(855,000)	(855,000)	(795,869)	59,131
NET CHANGE IN FUND BALANCE	(361,200)	(384,230)	249,043	633,273
FUND BALANCE, BEGINNING OF YEAR, as restated	2,160,742	2,160,742	2,160,742	-
FUND BALANCE, END OF YEAR	\$ 1,799,542	\$ 1,776,512	\$ 2,409,785	\$ 633,273

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

JUNE 30, 2005

	BUSINESS-TYPE	
	ACTIVITIES	GOVERNMENTAL
	WATER/ SEWER ENTERPRISE FUND	ACTIVITIES INTERNAL SERVICE FUNDS
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 963,630	\$ 986,501
Investments	304,273	537,017
Accounts receivable	373,298	-
Inventory	41,313	66,115
Prepaid expenses	-	8,307
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	1,682,514	1,597,940
	<hr/>	<hr/>
CAPITAL ASSETS		
Property plant & equipment	13,302,070	3,003,837
Drain Infrastructure, net	768,838	-
Construction in progress	152,749	-
	<hr/>	<hr/>
	14,223,657	3,003,837
Less: Accumulated depreciation	<hr/> (6,129,835)	<hr/> (1,619,809)
	<hr/>	<hr/>
TOTAL CAPITAL ASSETS	8,093,822	1,384,028
	<hr/>	<hr/>
TOTAL ASSETS	9,776,336	2,981,968
	<hr/>	<hr/>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	390,600	104,054
Accrued liabilities	43,438	11,625
Current maturity of bonds payable	83,181	-
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	517,219	115,679
	<hr/>	<hr/>
NONCURRENT LIABILITIES		
Bonds payable, net of current maturities	894,592	-
	<hr/>	<hr/>
TOTAL LIABILITIES	1,411,811	115,679
	<hr/>	<hr/>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	7,116,049	1,384,028
Unrestricted	1,248,476	1,482,261
	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 8,364,525	\$ 2,866,289
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	BUSINESS-TYPE ACTIVITIES WATER/ SEWER ENTERPRISE FUND	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
OPERATING REVENUES		
Charges for services	\$ 2,589,300	\$ 1,616,759
Miscellaneous	3,497	21,920
TOTAL OPERATING REVENUES	<u>2,592,797</u>	<u>1,638,679</u>
OPERATING EXPENSES		
Personnel services	309,406	179,245
Contractual services	454,411	19,193
Materials and supplies	128,715	430,734
Automobile	70,164	1,430
Water purchases	845,129	-
Claims	-	629,388
Administration	76,000	25,665
Depreciation and amortization	363,471	237,513
Miscellaneous	37,854	-
TOTAL OPERATING EXPENSES	<u>2,285,150</u>	<u>1,523,168</u>
OPERATING INCOME	<u>307,647</u>	<u>115,511</u>
NON OPERATING REVENUES (EXPENSES)		
Interest income	17,118	-
Interest expense	(38,281)	-
TOTAL NON OPERATING REVENUES (EXPENSES)	<u>(21,163)</u>	<u>-</u>
CHANGE IN NET ASSETS	286,484	115,511
NET ASSETS, BEGINNING OF YEAR	<u>8,078,041</u>	<u>2,750,778</u>
NET ASSETS, END OF YEAR	<u>\$ 8,364,525</u>	<u>\$ 2,866,289</u>

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2005

	BUSINESS-TYPE ACTIVITIES WATER/ SEWER ENTERPRISE FUND	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from interfund services provided	\$ -	\$ 1,616,759
Receipts from customers and users	2,545,125	21,920
Payments to suppliers	(1,560,526)	(1,079,600)
Payments to employees	(309,406)	(223,305)
	<u>675,193</u>	<u>335,774</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(271,897)	(56,010)
Principal paid on bonds	(81,259)	-
Interest and fiscal charges paid	(38,281)	-
	<u>(391,437)</u>	<u>(56,010)</u>
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(304,273)	(537,017)
Interest earned on investments	17,118	-
	<u>(287,155)</u>	<u>(537,017)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,399)	(257,253)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>967,029</u>	<u>1,243,754</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 963,630</u>	<u>\$ 986,501</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 307,647	\$ 115,511
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	363,471	237,513
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(47,672)	-
Inventory	15,391	(7,381)
Accounts payable	27,377	(13,129)
Accrued liabilities	8,979	3,260
	<u>675,193</u>	<u>335,774</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

***FIDUCIARY FUNDS
STATEMENT OF NET ASSETS***

JUNE 30, 2005

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 18,562
Delinquent taxes receivable	<u>148,151</u>
	<u>\$ 166,713</u>
<u>LIABILITIES</u>	
Due to other governmental units	<u>\$ 166,713</u>
TOTAL LIABILITIES	<u>\$ 166,713</u>

The accompanying notes are an integral part of these financial statements.

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of East Grand Rapids conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies:

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the financial statements to emphasize they are legally separate from the City. The City has no discretely presented component units.

Blended Component Units

Blended component units, although legally separate entities, are, in substance, part of the City operations and data from these units are combined with data from the primary government.

City of East Grand Rapids Building Authority

The Building Authority is governed by a board appointed by the City commission. For financial reporting purposes, the building authority is reported as if it were a part of the City's operations because its sole purpose is to finance and construct the City's public buildings. The Building Authority had no activity during the current year.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the County pays the City, and is responsible for collecting, any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

The *Municipal Complex Capital Projects Fund* is used to account for costs associated with the construction of the municipal complex and the related bond issue proceeds.

The *Streetscape Capital Projects Fund* is used to account for costs associated with several streetscape projects within the City and the related bond issue proceeds.

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

The City reports the following major proprietary fund:

The *Water and Sewer Enterprise Fund* is used to account for the operations of the City's sewer and water department that provides sewer and water services to most residents of the City on a user charge basis.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for proceeds from specific revenue sources (other than or capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Debt Service Funds* account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The *Capital Projects Fund* is used to account for the accumulation and disbursement of funds for capital projects.

The *Internal Service Funds* account for equipment and vehicle purchases, repairs and maintenance provided to the City departments on a cost reimbursement basis and the accumulation of resources and costs related to the City's self-insurance program.

The *Agency Fund Fiduciary Fund* is used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations or other governments. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. The principal operating revenues of the City's internal service funds are charges to City departments for equipment utilization and insurance coverage. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. Operating expenses for the internal funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF EAST GRAND RAPIDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Budgets and Budgetary Accounting

Comparisons to budget are presented for General and Special Revenue Funds. General and Special Revenue Funds adopt a legal budget with remaining funds maintaining budgets as a management control device. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. By the second week of June the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed for the government fund types as a management control device.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual budgets lapse at fiscal year end.
6. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed during the year ended June 30, 2005. The appropriations resolution is based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The City Manager is authorized to transfer budgeted amounts within an activity subject to the condition that the total expenditures do not exceed the approved appropriations by activity. Supplemental appropriations were necessary during the year.

Budgets for expenditures are adopted on a fund total basis in both the General Fund and in the Special Revenue funds. Thus, expenditures may not legally exceed the budgeted amounts by fund for the General and Special Revenue funds.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Receivables

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Drainage District Facility Rights

The City is a participant in the Silver Creek Drainage District, an intra-county drain in Kent County owned and operated by the Kent County Drain Commission. Each member municipality has pledged its full faith and credit in repayment of their allocated shares of long-term debt of the system.

The City accounts for the group of transactions substantially in accordance with APB 17, Intangible Assets. The contract payable to the Kent County Drain Commission is presented as long-term debt. The City's investment in the intangible asset is presented as drain infrastructure.

The investment in drain infrastructure is amortized over the life of the debt issue.

Due to/from Other Funds

During the course of its operations, the City has numerous transactions between funds to finance operations, to provide services, construct assets and service debt. To the extent that certain transactions between funds had not been paid or received as of fiscal year end, balances of interfund accounts receivable or payable have been recorded.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added since 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure), is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Water and sewage systems	20-50
Buildings and improvements	10-35
Vehicles and equipment	4-20
Infrastructure	5-20

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

General Fund – fees received in advance	\$14,729
Special assessment fund – special assessments	<u>61,578</u>
	<u>\$76,307</u>

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as general government expenditures.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused sick and vacation benefits. The City follows the accounting and reporting principles outlined in GASB 16, with regard to employee vacation and sick leave.

Vacation time is credited to each employees account monthly. Employees that are allowed to carryover up to a maximum of two years worth of earned vacation. Unused vacation days are paid to employees upon termination under limits that vary by employee group. Employees accumulate sick leave at the rate of one day per month of employment. Unused sick leave, under limits that vary by employee group, is payable to employees (or their beneficiaries) with ten or more years of continuous service at the rate of \$1.00 per day, times the years of continuous service upon retirement or death. The vesting method is used to determine the amount of sick leave accrued.

The liability for these compensated absences is recorded as long-term debt in the government-wide statements. A liability for these amounts is reported in the governmental funds only for employee termination as of year-end while the proprietary funds report the liability as it is incurred.

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before August 15. These summer tax bills include the City's own property taxes and taxes billed on behalf of the school district (State Education Tax) within the City limits. Real property taxes not collected as of March 1 are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue in that year.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

Investments

State statutes authorize the City to invest in the following:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

2. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to cash and cash equivalents are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 2,866,048	\$ 963,630	\$18,562	\$3,848,240
Investments	13,198,992	304,273	-	13,503,265
	<u>\$16,065,040</u>	<u>\$1,267,903</u>	<u>\$18,562</u>	<u>\$17,351,505</u>

These deposits are in four (4) financial institutions located in Michigan. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at fair value.

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following deposits and investments:

Investments

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Daimler Chrysler Commercial Paper	8/15/05	\$502,193	A2P2
Dreyfus Government Cash Management Fund	N/A	3,559,784	Unrated
Federal Home Loan Mortgage Corporation Discount Notes	8/30/05	497,506	S&P AAA
Federal Home Loan Bank Bonds	8/15/05	504,136	S&P AAA
Federal Home Loan Bank Bonds	3/15/06	499,192	S&P AAA
Federal Home Loan Bank Bonds	2/15/06	498,210	S&P AAA
Federal Home Loan Bank Bonds	5/15/05	496,302	S&P AAA
Federal Home Loan Bank Bonds	12/15/05	499,040	S&P AAA
Federal Home Loan Mortgage Corporation Reference Notes	4/15/06	497,506	S&P AAA
Federal Home Loan Mortgage Corporation Reference Notes	11/15/05	498,557	S&P AAA
Federal National Mortgage Association Discount Notes	7/22/05	489,233	S&P AAA
Federal National Mortgage Association Benchmark Notes	10/15/05	503,548	S&P AAA
Federal National Mortgage Association Benchmark Notes	7/15/05	497,903	S&P AAA
Federal National Mortgage Association Benchmark Notes	1/15/06	496,322	S&P AAA
Federal National Mortgage Association Benchmark Notes	6/15/06	497,244	S&P AAA
Kent County Investment Pool	N/A	1,826,227	Unrated

The above investments do not include certificates of deposit which are classified as investments for financial statement purposes as their original maturity date is greater than three months.

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year-end.

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the City's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in Note 1 of the summary of significant accounting policies. The investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year-end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. As of year-end, \$5,032,419 of the City's bank balance of \$5,432,419 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. Of the above \$12,362,903 in investments, the City has a custodial credit risk exposure of \$6,976,892 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. Of the above mutual fund investments, the City's custodial credit risk exposure cannot be determined because the mutual funds do not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 of the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. Concentrations of investments are noted above.

3. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2005 are as follows:

	General Fund	Major Street Fund	Local Streets Fund	Total Transfers Out
General Fund	\$ -	\$366,000	\$489,000	\$855,000
Municipal Complex Funds	59,131	-	-	59,131
Total transfers in	<u>\$59,131</u>	<u>\$366,000</u>	<u>\$489,000</u>	<u>\$914,131</u>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balance July 1, 2004	Additions	Dispositions	Balance June 30, 2005
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 2,124,000	\$ -	\$ -	\$2,124,000
Construction in progress	209,665	2,002,498	150,534	2,061,629
Total capital assets, not being depreciated	2,333,665	2,002,498	150,534	4,185,629
Capital assets, being depreciated:				
Land improvements	673,435	-	-	673,435
Buildings	843,629	-	-	843,629
Building improvements	3,854,256	-	-	3,854,256
Vehicles and equipment	3,174,050	82,169	85,934	3,170,285
Infrastructure	8,103,068	456,201	-	8,559,269
Total capital assets, being depreciated	16,648,438	538,370	85,934	17,100,874
Less accumulated depreciation for:				
Land improvements	67,344	33,672	-	101,016
Buildings	819,403	9,187	-	828,590
Building improvements	933,750	182,012	-	1,115,762
Vehicles and equipment	1,497,251	259,335	84,146	1,672,440
Infrastructure	2,956,447	399,515	-	3,355,962
Total accumulated depreciation	6,274,195	883,721	84,146	7,073,770
Net capital assets, being depreciated	10,374,243	(345,351)	1,788	10,027,104
Net governmental activities capital assets	\$12,707,908	\$1,657,147	\$152,322	\$14,212,733
Business-type activities				
Capital assets, not being depreciated:				
Construction in progress	\$ 81,969	\$143,996	\$73,216	\$ 152,749
Capital assets, being depreciated:				
Sewer system	7,641,644	-	-	7,641,644
Water system	4,414,820	201,116	-	4,615,944
Lift stations	390,983	-	-	390,983
Water tower	303,228	-	-	303,228
Meters	350,271	-	-	350,271
Drain infrastructure	1,530,664	-	-	1,530,664
Total capital assets, being depreciated	14,631,610	201,116	-	14,832,734

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>June 30, 2005</u>
Less accumulated depreciation for:				
Sewer system	\$3,762,379	\$154,365	\$ -	\$3,916,734
Water system	1,675,985	90,768	-	1,766,753
Lift stations	118,750	17,589	-	136,339
Water tower	172,294	6,362	-	178,656
Meters	113,840	17,512	-	131,352
Drain infrastructure	<u>684,942</u>	<u>76,884</u>	<u>-</u>	<u>761,826</u>
Total accumulated depreciation	<u>6,528,190</u>	<u>363,471</u>	<u>-</u>	<u>6,891,661</u>
Net capital assets, being depreciated	<u>8,103,428</u>	<u>(162,355)</u>	<u>-</u>	<u>7,941,073</u>
Business-type activities capital assets, net	<u>\$8,185,397</u>	<u>\$(18,359)</u>	<u>\$73,216</u>	<u>\$8,093,822</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 30,372
Public safety	76,252
Public works	427,144
Recreation and culture	112,440
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>237,513</u>
Total depreciation expense – governmental activities	<u>\$883,721</u>

5. PENSION PLAN

Defined Benefit Plan Description

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit pension plan providing retirement, death and disability benefits covering certain bargaining units. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate, which for the current year ranged from 18.37 to 27.74 percent. Employees are not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board.

For the year ended June 30, 2005, the City's annual pension cost of \$191,707 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the initial entry into the plan using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of eight (8.0) percent; (b) projected salary increases of

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

four and one-half (4.5) percent per year compounded annually based on inflation, and (c) additional projected salary increases of 0.0% to 4.2% per year based on an age-related scale to reflect merit, longevity and promotional salary increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 30 years.

Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	\$141,879	100%	\$ -
2004	127,719	100%	-
2005	191,707	100%	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/02	\$14,438,982	\$17,246,648	\$2,807,666	84%	\$1,018,440	276%
12/31/03	13,408,406	16,882,351	3,473,945	79%	795,299	437%
12/31/04	13,160,299	17,410,086	4,249,787	76%	718,375	592%

Defined Contribution Pension Plans

The City also maintains three defined contribution retirement plans offered by MERS and administered by ICMA Retirement Corporation (ICMA). The City Services Defined Contribution Plan covers all City service employees hired on or after July 7, 1999 and all City services employees hired prior to July 7, 1999 who elected to convert from the defined benefits plan on July 7, 1999. The Non-Union Defined Contribution Plan covers all non-union employees hired on or after July 1, 1999 and all non-union employees hired prior to July 1, 1999 who elected to convert from the defined benefit plan on July 1, 1999. The Public Safety Defined Contribution Plan covers all public safety officers, lieutenants and sergeants hired on or after January 1, 2002 and all officers, lieutenants and sergeants hired prior to January 1, 2002 who elected to convert to the defined contribution plan on January 1, 2002.

City Services Defined Contribution Plan

The City Services Plan requires participants and the City to each contribute 4% of the participants' salaries to the plan. The City's contribution for fiscal year 2005 was \$21,961 and the employees' contribution was also \$21,691.

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Non-Union Defined Contribution Plan

The Non-Union Plan gives participants the option to contribute up to 1% of their salary to the plan. The City is required to contribute 14% of the participants' salary and match the employees' optional contribution. The City's contribution for fiscal year 2005 was \$216,703 and the employees' contribution was \$14,447.

Public Safety Defined Contribution Plan

The Public Safety Plan requires participants to contribute 3.81% of their salary to the plan. The City is required to contribute 15% of the participants' salary. The City's contribution for fiscal year 2005 was \$208,096 and the employees' contribution was \$52,350.

6. OTHER POST EMPLOYMENT BENEFITS

In addition to pension benefits, the City extends medical insurance coverage to retirees. The employer-paid benefit is provided upon the employee attaining 55 years of age, with 25 years of service to the City. Upon that attainment, the employee and eligible dependents, as applicable, are provided with medical insurance equivalent to that provided to existing employees in their classification until they are eligible for federal Medicare coverage. The City has 19 individuals/family groups who are receiving benefits. The benefits are financed with contributions by various City funds to the Health Insurance Fund, based on retirees' claims and a provision for estimated claims incurred but not yet reported to the City. Current year expenses for covered individuals were \$255,030.

7. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Due Within One Year
<i>Governmental activities</i>					
\$1,775,000 Unlimited Tax General Obligation Bonds, Series 2002, due in annual installments of \$15,000 to \$165,000 through April 2022; interest at 2.85% to 4.90% (unamortized discount \$14,388).	\$1,710,000	\$ -	\$(45,000)	\$ 1,665,000	\$ 50,000
\$8,740,000 Unlimited Tax General Obligation Bonds, Series 2004, due in annual installments of \$45,000 to \$550,000 through April 2034; interest at 3.00% to 4.875%.	-	8,740,000	(45,000)	8,695,000	15,000
\$3,140,000 2005 Michigan Transportation Fund Bonds, due in annual installments of \$185,000 to \$265,000 through April 2020; interest at 3.00% to 4.25%.	-	3,140,000	-	3,140,000	185,000
Long-term compensated absences.	193,205	-	(1,089)	192,116	-
Total governmental activities	\$1,903,205	\$11,880,000	\$(91,089)	13,692,116	\$250,000
Unamortized discount.				14,388	
				\$13,677,728	

For the governmental activities, compensated absences are generally liquidated by the general fund.

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>	<u>Due Within One Year</u>
<i>Business-type activities</i>					
\$868,583 1995 Silver Creek Drain Bonds; due in annual installments of \$37,639 to \$39,569 through November 2005; Interest at 4.80% to 4.90%.	\$ 77,208	\$ -	\$ (37,643)	\$ 39,565	\$39,565
\$981,824 2003 Silver Creek Drain Refunding Bonds; due in annual installments of \$43,616 to \$107,648 through November 2016; interest at 2.00% to 4.25%.	<u>981,824</u>	<u>-</u>	<u>(43,616)</u>	<u>938,208</u>	<u>43,616</u>
Total business-type activities	<u>\$1,059,032</u>	<u>\$ -</u>	<u>\$(81,259)</u>	<u>\$977,773</u>	<u>\$83,181</u>

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2005 are as follows:

<u>Year June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 250,000	\$ 572,273	\$ 83,181	\$ 30,258
2007	240,000	583,754	84,448	27,903
2008	245,000	576,279	87,232	25,862
2009	350,000	567,669	90,944	23,522
2010	365,000	555,729	92,800	20,879
2011-2015	2,030,000	2,535,466	471,424	55,785
2016-2020	2,940,000	2,098,564	67,744	1,440
2021-2025	2,225,000	1,491,426	-	-
2026-2030	2,655,000	928,931	-	-
2031-2034	2,200,000	268,125	-	-
Total	<u>\$13,500,000</u>	<u>\$10,178,216</u>	<u>\$977,773</u>	<u>\$185,649</u>

8. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages its risk by purchasing commercial insurance for liability and property insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCSIF for its workers' compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

The City is self-insured for employees' health benefits and accounts for and finances its uninsured risks of loss in the Health Care Fund (an internal service fund). Under this program, the Health Care Fund provides specific coverage for up to a maximum of \$40,000 per covered individual and certain excess of coverage provided by the fund and for all other risks of loss. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

All funds of the City participate in the program and make payments to the Health Care Fund based on experience estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. The available net assets at June 30, 2005 are \$156,935 and are reported in the Health Insurance Fund. The claims liability of \$85,061 reported in the fund at June 30, 2005, is based on the requirements of GASB 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

<u>Fiscal Year Ended June 30</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2004	\$66,808	\$714,561	\$(697,128)	\$84,241
2005	84,241	696,642	(695,822)	85,061

9. CONTINGENT LIABILITIES

The City is party to various legal proceedings and claims which normally occur in government operations. Although the outcome of the legal proceedings and claims is not presently determinable, it is the opinion of the City's management that the resolution of these matters will not have a material adverse effect on the financial condition of the City.

10. COMMITMENTS

At June 30, 2005, the City had various construction projects in progress and had remaining commitments outstanding of approximately \$8,700,000 in connection with those projects.

11. RESTATEMENT OF PRIOR YEAR

Fund balance of the general fund was restated by \$169,205 as of July 1, 2004 to reflect the removal of the long-term portion of compensated absences payable.

CITY OF EAST GRAND RAPIDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

12. STATE CONSTRUCTION CODE ACT

P.A. 245 of 1999, section 22(1) of the State Construction Code Act, requires fees generated by enforcing agencies or construction board of appeals be intended to bear a reasonable relationship to the actual cost of performing those services.

The fees generated by the City's enforcing agencies and the costs of providing those services were as follows for the year ended June 30, 2005:

Revenues	
Building permits	\$56,209
Other permits	<u>23,728</u>
Total revenues	<u>\$79,937</u>
Expenditures	
Salaries and wages	\$56,786
Payroll taxes and fringe benefits	24,399
Inspection services	3,391
Automobile expenses	<u>5,560</u>
Total expenditures	<u>90,136</u>
Deficiency of revenues under expenditures	<u>\$(10,199)</u>

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CITY OF EAST GRAND RAPIDS

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Taxes				
Property taxes	\$ 6,080,000	\$ 6,080,000	\$ 6,079,531	\$ (469)
Interest and penalties on property taxes	19,000	19,000	20,043	1,043
	6,099,000	6,099,000	6,099,574	574
Licenses and permits				
Business licenses	3,000	3,000	9,065	6,065
Cable television franchise fees	97,000	97,000	114,581	17,581
Building permits	35,000	35,000	56,209	21,209
Other licenses and permits	13,000	13,000	23,728	10,728
	148,000	148,000	203,583	55,583
State revenues				
State shared revenue	890,600	890,600	976,265	85,665
State grants	6,500	6,500	43,226	36,726
	897,100	897,100	1,019,491	122,391
Charges for services				
Administrative charges	76,000	76,000	76,000	-
Recreation fees	799,600	799,600	675,148	(124,452)
Grounds maintenance fees	113,900	113,900	108,869	(5,031)
Clerk's services	6,000	6,000	11,684	5,684
Right of way fees	6,500	6,500	2,600	(3,900)
Other	21,100	21,100	20,793	(307)
	1,023,100	1,023,100	895,094	(128,006)
Fines and penalties	51,000	51,000	47,970	(3,030)
Interest and rentals				
Interest	60,000	60,000	90,198	30,198
Cable tower rental	61,200	61,200	59,941	(1,259)
	121,200	121,200	150,139	28,939
Miscellaneous	18,200	18,200	69,672	51,472
TOTAL REVENUES	\$ 8,357,600	\$ 8,357,600	\$ 8,485,523	\$ 127,923

(Continued)

CITY OF EAST GRAND RAPIDS

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
EXPENDITURES				
Current				
Legislative				
City commission				
Personnel services	\$ 8,000	\$ 8,000	\$ 10,481	\$ (2,481)
Contractual services	2,000	2,000	354	1,646
Miscellaneous	15,100	15,100	15,110	(10)
	25,100	25,100	25,945	(845)
General government				
City manager				
Personnel services	203,000	203,000	195,602	7,398
Contractual services	4,000	4,000	2,940	1,060
Operating supplies	5,000	5,000	3,013	1,987
Automobile expenses	200	200	9	191
Miscellaneous	8,800	8,800	6,248	2,552
	221,000	221,000	207,812	13,188
City assessor				
Personnel services	113,000	113,000	110,362	2,638
Operating supplies	4,000	4,000	3,397	603
Automobile expenses	400	400	95	305
Miscellaneous	1,900	1,900	1,769	131
	119,300	119,300	115,623	3,677
City attorney				
Professional services	180,000	180,000	184,219	(4,219)
Miscellaneous	5,000	5,000	-	5,000
	185,000	185,000	184,219	781
Elections				
Personnel services	15,200	15,200	20,678	(5,478)
Contractual services	1,000	1,000	-	1,000
	16,200	16,200	20,678	(4,478)
Controller-clerk-treasurer				
Personnel services	406,000	406,000	407,958	(1,958)
Contractual services	4,000	4,000	5,469	(1,469)
Professional services	17,100	17,100	16,550	550
Operating supplies	47,600	52,400	58,811	(6,411)
Repairs and maintenance	24,800	24,800	23,880	920
Automobile expenses	500	500	433	67
Miscellaneous	24,900	24,900	18,989	5,911
	524,900	529,700	532,090	(2,390)
City buildings				
Personnel services	216,400	216,400	194,678	21,722
Contractual services	288,500	288,500	256,879	31,621
Operating supplies	31,400	35,500	31,126	4,374
Repairs and maintenance	55,000	55,000	56,260	(1,260)
Automobile expenses	10,000	10,000	5,650	4,350
Miscellaneous	8,200	8,200	8,064	136
	609,500	613,600	552,657	60,943
Total general government	1,675,900	1,684,800	1,613,079	71,721

(Continued)

CITY OF EAST GRAND RAPIDS
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
Public safety				
General activity				
Personnel services	\$ 3,084,400	\$ 3,084,400	\$ 3,079,683	\$ 4,717
Contractual services	104,000	104,000	92,629	11,371
Operating supplies	95,700	95,700	82,072	13,628
Repairs and maintenance	9,000	9,000	7,696	1,304
Automobile expenses	172,000	172,000	167,077	4,923
Miscellaneous	28,200	28,200	24,390	3,810
	3,493,300	3,493,300	3,453,547	39,753
State programs				
Training	6,500	6,500	5,444	1,056
Drug seizure program				
Operating supplies	10,700	10,700	1,648	9,052
Miscellaneous	11,000	11,000	3,777	7,223
	21,700	21,700	5,425	16,275
Inspection				
Personnel services	84,900	84,900	81,185	3,715
Contractual services	5,000	5,000	3,391	1,609
Automobile expenses	8,000	8,000	5,560	2,440
	97,900	97,900	90,136	7,764
Total public safety	3,619,400	3,619,400	3,554,552	64,848
Public works				
Engineering				
Personnel services	99,700	99,700	109,255	(9,555)
Contractual services	10,000	10,000	898	9,102
Operating supplies	-	-	242	(242)
Automobile expenses	8,000	8,000	5,624	2,376
	117,700	117,700	116,019	1,681
Street lighting				
Contractual services	69,000	69,000	67,211	1,789
Repairs and maintenance	4,000	4,000	4,596	(596)
	73,000	73,000	71,807	1,193
Waste collection				
Personnel services	178,400	178,400	147,301	31,099
Contractual services	178,000	178,000	159,309	18,691
Operating supplies	800	800	695	105
Automobile expenses	85,000	85,000	78,398	6,602
	442,200	442,200	385,703	56,497
Lake restoration				
Contractual services	20,000	20,000	14,450	5,550
Tree maintenance and removal				
Personnel services	9,300	9,300	5,642	3,658
Contractual services	47,500	47,500	45,458	2,042
Repairs and maintenance	1,000	1,000	-	1,000
Automobile expenses	2,000	2,000	852	1,148
	59,800	59,800	51,952	7,848

(Continued)

CITY OF EAST GRAND RAPIDS
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
Grounds maintenance				
Personnel services	\$ 124,700	\$ 124,700	\$ 118,461	\$ 6,239
Contractual services	700	700	658	42
Operating supplies	16,500	16,500	13,790	2,710
Repairs and maintenance	72,700	72,700	69,377	3,323
Automobile expenses	45,000	45,000	51,878	(6,878)
Miscellaneous	600	600	848	(248)
	<u>260,200</u>	<u>260,200</u>	<u>255,012</u>	<u>5,188</u>
Total public works	<u>972,900</u>	<u>972,900</u>	<u>894,943</u>	<u>77,957</u>
Culture and recreation				
Personnel services	717,900	717,900	657,442	60,458
Contractual services	114,900	114,900	98,429	16,471
Joint facilities agreement	128,600	128,600	153,446	(24,846)
Operating supplies	168,700	168,700	52,856	115,844
Repairs and maintenance	4,900	4,900	4,163	737
Automobile expenses	700	700	788	(88)
Miscellaneous	16,100	16,100	12,336	3,764
	<u>1,151,800</u>	<u>1,151,800</u>	<u>979,460</u>	<u>172,340</u>
Special events				
Personnel services	5,700	5,700	3,129	2,571
Contractual services	30,700	30,700	28,353	2,347
Operating supplies	37,100	37,100	33,288	3,812
Miscellaneous	25,100	25,100	23,880	1,220
	<u>98,600</u>	<u>98,600</u>	<u>88,650</u>	<u>9,950</u>
Total culture and recreation	<u>1,250,400</u>	<u>1,250,400</u>	<u>1,068,110</u>	<u>182,290</u>
Other governmental functions				
Personnel services	5,000	5,000	17,391	(12,391)
Contractual services	32,100	32,100	31,474	626
Insurance premiums	140,000	140,000	127,732	12,268
Miscellaneous	6,000	6,000	15	5,985
	<u>183,100</u>	<u>183,100</u>	<u>176,612</u>	<u>6,488</u>
Capital outlay				
City manager	8,000	8,000	-	8,000
Controller-clerk-treasurer	4,800	18,930	16,000	2,930
Public safety				
General activity	12,500	12,500	9,840	2,660
Drug seizure program	15,300	15,300	-	15,300
Public works				
Street lighting	6,400	6,400	3,425	2,975
Culture and recreation	70,000	70,000	62,356	7,644
Other governmental functions	20,000	20,000	15,749	4,251
	<u>137,000</u>	<u>151,130</u>	<u>107,370</u>	<u>43,760</u>
TOTAL EXPENDITURES	<u>\$ 7,863,800</u>	<u>\$ 7,886,830</u>	<u>\$ 7,440,611</u>	<u>\$ 446,219</u>

(Concluded)

CITY OF EAST GRAND RAPIDS

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2005

	SPECIAL REVENUE		DEBT SERVICE		CAPITAL PROJECTS	TOTAL
	MAJOR STREETS	LOCAL STREETS	WEALTHY POOL	MUNICIPAL COMPLEX	SPECIAL ASSESSMENT	
<u>ASSETS</u>						
Cash and cash equivalents	\$ 540,119	\$ 182,262	\$ 54,813	\$ 50,661	\$ 61,971	\$ 889,826
Investments	311,970	208,251	-	-	-	520,221
Special assessments receivable	-	-	-	-	68,734	68,734
Due from other governmental units	79,190	30,083	-	-	-	109,273
<u>TOTAL ASSETS</u>	<u>\$ 931,279</u>	<u>\$ 420,596</u>	<u>\$ 54,813</u>	<u>\$ 50,661</u>	<u>\$ 130,705</u>	<u>\$ 1,588,054</u>
 <u>LIABILITIES AND FUND BALANCES</u>						
LIABILITIES						
Accounts payable	\$ 10,235	\$ 6,799	\$ -	\$ -	\$ -	\$ 17,034
Accrued liabilities	4,439	4,443	-	-	-	8,882
Deferred revenue	-	-	-	-	61,578	61,578
TOTAL LIABILITIES	14,674	11,242	-	-	61,578	87,494
FUND BALANCES						
Reserved for						
Bike trail phase II	-	103,287	-	-	-	103,287
Unreserved:						
Undesignated	916,605	306,067	54,813	50,661	69,127	1,397,273
TOTAL FUND BALANCES	916,605	409,354	54,813	50,661	69,127	1,500,560
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 931,279</u>	<u>\$ 420,596</u>	<u>\$ 54,813</u>	<u>\$ 50,661</u>	<u>\$ 130,705</u>	<u>\$ 1,588,054</u>

CITY OF EAST GRAND RAPIDS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2005

	SPECIAL REVENUE		DEBT SERVICE		CAPITAL PROJECTS	
	MAJOR STREETS	LOCAL STREETS	WEALTHY POOL	MUNICIPAL COMPLEX	SPECIAL ASSESSMENT	TOTAL
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ 371,802	\$ -	\$ 371,802
Intergovernmental:						
Federal	-	96,825	-	-	-	96,825
State	517,300	214,284	-	-	-	731,584
Local	-	90,000	-	-	-	90,000
Interest and rentals	11,793	6,038	1,454	2,479	-	21,764
Miscellaneous	-	-	16	-	88	104
Special assessments	-	-	-	-	51,285	51,285
TOTAL REVENUES	529,093	407,147	1,470	374,281	51,373	1,363,364
EXPENDITURES						
Current:						
Public works	873,588	1,056,131	-	-	-	1,929,719
Debt Service:						
Principal	-	-	45,000	45,000	-	90,000
Interest	-	-	72,572	278,620	-	351,192
TOTAL EXPENDITURES	873,588	1,056,131	117,572	323,620	-	2,370,911
REVENUES OVER (UNDER) EXPENDITURES	(344,495)	(648,984)	(116,102)	50,661	51,373	(1,007,547)
OTHER FINANCING SOURCES (USES)						
Transfers in	366,000	489,000	-	-	-	855,000
NET CHANGES IN FUND BALANCES	21,505	(159,984)	(116,102)	50,661	51,373	(152,547)
FUND BALANCES, BEGINNING OF YEAR	895,100	569,338	170,915	-	17,754	1,653,107
FUND BALANCES, END OF YEAR	\$ 916,605	\$ 409,354	\$ 54,813	\$ 50,661	\$ 69,127	\$ 1,500,560

CITY OF EAST GRAND RAPIDS
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR STREETS FUND

FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Intergovernmental revenues:				
State	\$ 500,000	\$ 500,000	\$ 517,300	\$ 17,300
Federal	300,000	300,000	-	(300,000)
Interest and rentals	4,000	4,000	11,793	7,793
Miscellaneous	-	-	-	-
TOTAL REVENUES	804,000	804,000	529,093	(274,907)
EXPENDITURES				
Street maintenance	341,700	341,700	284,587	57,113
Street construction	945,000	945,000	405,262	539,738
Street administration	196,000	196,000	183,739	12,261
TOTAL EXPENDITURES	1,482,700	1,482,700	873,588	609,112
REVENUES OVER (UNDER) EXPENDITURES	(678,700)	(678,700)	(344,495)	334,205
OTHER FINANCING SOURCES (USES)				
Transfers in	366,000	366,000	366,000	-
NET CHANGE IN FUND BALANCE	(312,700)	(312,700)	21,505	334,205
FUND BALANCE, BEGINNING OF YEAR	895,100	895,100	895,100	-
FUND BALANCE, END OF YEAR	\$ 582,400	\$ 582,400	\$ 916,605	\$ 334,205

CITY OF EAST GRAND RAPIDS

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
LOCAL STREETS FUND**

FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Intergovernmental revenues:				
Federal	\$ 115,000	\$ 115,000	\$ 96,825	\$ (18,175)
State	200,000	200,000	214,284	14,284
Local	50,000	50,000	90,000	40,000
Interest and rentals	2,000	2,000	6,038	4,038
TOTAL REVENUES	367,000	367,000	407,147	40,147
EXPENDITURES				
Street maintenance	359,300	359,300	279,613	79,687
Street construction	737,000	737,000	608,918	128,082
Street administration	175,800	175,800	167,600	8,200
TOTAL EXPENDITURES	1,272,100	1,272,100	1,056,131	215,969
REVENUES OVER (UNDER) EXPENDITURES	(905,100)	(905,100)	(648,984)	256,116
OTHER FINANCING SOURCES				
Transfers in	489,000	489,000	489,000	-
NET CHANGE IN FUND BALANCE	(416,100)	(416,100)	(159,984)	256,116
FUND BALANCE, BEGINNING OF YEAR	569,338	569,338	569,338	-
FUND BALANCE, END OF YEAR	\$ 153,238	\$ 153,238	\$ 409,354	\$ 256,116

CITY OF EAST GRAND RAPIDS

**COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS**

JUNE 30, 2005

<u>ASSETS</u>	<u>MOTOR POOL</u>	<u>HEALTH INSURANCE</u>	<u>TOTAL</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 744,505	\$ 241,996	\$ 986,501
Investments	537,017	-	537,017
Prepaid expenses	8,307	-	8,307
Inventory	66,115	-	66,115
TOTAL CURRENT ASSETS	1,355,944	241,996	1,597,940
Property plant & equipment	3,003,837	-	3,003,837
Less: Accumulated depreciation	(1,619,809)	-	(1,619,809)
<u>TOTAL ASSETS</u>	<u>2,739,972</u>	<u>241,996</u>	<u>2,981,968</u>
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Accounts payable	18,993	85,061	104,054
Accrued liabilities	11,625	-	11,625
TOTAL CURRENT LIABILITIES	30,618	85,061	115,679
NET ASSETS			
Invested in capital assets	1,384,028	-	1,384,028
Unrestricted	1,325,326	156,935	1,482,261
TOTAL NET ASSETS	\$ 2,709,354	\$ 156,935	\$ 2,866,289

CITY OF EAST GRAND RAPIDS

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS
INTERNAL SERVICE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2005

	MOTOR POOL	HEALTH INSURANCE	TOTAL
REVENUES			
Charges for services	\$ 569,557	\$ 1,047,202	\$ 1,616,759
Miscellaneous	21,920	-	21,920
TOTAL REVENUES	591,477	1,047,202	1,638,679
EXPENSES			
Personnel services	179,245	-	179,245
Claims	-	629,388	629,388
Contractual services	-	19,193	19,193
Operating	205,831	224,903	430,734
Automobile	1,430	-	1,430
Administration	-	25,665	25,665
Depreciation and amortization	237,513	-	237,513
TOTAL EXPENSES	624,019	899,149	1,523,168
CHANGE IN NET ASSETS	(32,542)	148,053	115,511
NET ASSETS, BEGINNING OF YEAR	2,741,896	8,882	2,750,778
NET ASSETS, END OF YEAR	\$ 2,709,354	\$ 156,935	\$ 2,866,289

CITY OF EAST GRAND RAPIDS

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2005

	MOTOR POOL	HEALTH INSURANCE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from interfund services provided	\$ 569,557	\$ 1,047,202	\$ 1,616,759
Receipts from customers and users	21,920	-	21,920
Payments to suppliers	(183,366)	(896,234)	(1,079,600)
Payments to employees	(223,305)	-	(223,305)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	184,806	150,968	335,774
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(56,010)	-	(56,010)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(537,017)	-	(537,017)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(408,221)	150,968	(257,253)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,152,726	91,028	1,243,754
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 744,505	\$ 241,996	\$ 986,501
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ (32,542)	\$ 148,053	\$ 115,511
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	237,513	-	237,513
Changes in operating assets and liabilities which provided (used) cash:			
Inventory	(7,381)	-	(7,381)
Accounts payable	(16,044)	2,915	(13,129)
Accrued liabilities	3,260	-	3,260
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 184,806	\$ 150,968	\$ 335,774

CITY OF EAST GRAND RAPIDS

SCHEDULE OF INDEBTEDNESS

JUNE 30, 2005

DESCRIPTION	INTEREST RATES	INTEREST DATES	ISSUE DATE	FINAL MATURITY DATE	AMOUNT OF ISSUE	DATE	PRINCIPAL	INTEREST	AMOUNT OF TOTAL OUTSTANDING
GENERAL OBLIGATION DEBT									
Unlimited Tax General Obligation Bonds, Series 2002	2.85- 4.9%	10/1- 4/1	2/1/2002	4/1/2022	\$ 1,775,000	4/1/2006	\$ 50,000	\$ 75,390	\$ 125,390
						4/1/2007	55,000	73,790	128,790
						4/1/2008	55,000	71,865	126,865
						4/1/2009	60,000	69,830	129,830
						4/1/2010	70,000	67,490	137,490
						4/1/2011	75,000	32,345	107,345
						4/1/2012	80,000	61,615	141,615
						4/1/2013	85,000	58,295	143,295
						4/1/2014	90,000	54,598	144,598
						4/1/2015	100,000	50,593	150,593
						4/1/2016	105,000	46,043	151,043
						4/1/2017	115,000	41,160	156,160
						4/1/2018	125,000	35,525	160,525
						4/1/2019	135,000	29,400	164,400
						4/1/2020	145,000	22,785	167,785
						4/1/2021	155,000	15,680	170,680
						4/1/2022	165,000	8,085	173,085
							1,665,000	814,488	2,479,488
Unlimited Tax General Obligation Bonds, Series 2004	3.0 - 4.875%	10/1, 4/1	7/21/2004	4/1/2034	8,740,000	4/1/2006	15,000	399,539	414,539
						4/1/2007	15,000	399,089	414,089
						4/1/2008	15,000	398,639	413,639
						4/1/2009	110,000	398,189	508,189
						4/1/2010	110,000	394,889	504,889
						4/1/2011	110,000	391,039	501,039
						4/1/2012	110,000	387,189	497,189
						4/1/2013	110,000	383,339	493,339
						4/1/2014	120,000	379,214	499,214
						4/1/2015	130,000	374,654	504,654
						4/1/2016	170,000	369,584	539,584
						4/1/2017	185,000	362,784	547,784
						4/1/2018	220,000	355,291	575,291
						4/1/2019	240,000	346,161	586,161
						4/1/2020	275,000	336,081	611,081
						4/1/2021	310,000	324,256	634,256
						4/1/2022	340,000	310,616	650,616
						4/1/2023	380,000	295,486	675,486
						4/1/2024	415,000	278,196	693,196
						4/1/2025	460,000	259,106	719,106
						4/1/2026	505,000	236,681	741,681
						4/1/2027	530,000	212,063	742,063
						4/1/2028	535,000	186,225	721,225
						4/1/2029	540,000	160,144	700,144
						4/1/2030	545,000	133,819	678,819
						4/1/2031	550,000	107,250	657,250
						4/1/2032	550,000	80,438	630,438
						4/1/2033	550,000	53,625	603,625
						4/1/2034	550,000	26,813	576,813
							8,695,000	8,340,396	17,035,396

(Continued)

CITY OF EAST GRAND RAPIDS
SCHEDULE OF INDEBTEDNESS (CONTINUED)
JUNE 30, 2005

DESCRIPTION	INTEREST RATES	INTEREST DATES	ISSUE DATE	FINAL MATURITY DATE	AMOUNT OF ISSUE	DATE	PRINCIPAL	INTEREST	AMOUNT OF TOTAL OUTSTANDING
2005 Michigan Transportation Fund Bonds	3.0- 4.25%	10/1, 4/1	5/31/2005	4/1/2020	\$ 3,140,000	4/1/2006	\$ 185,000	\$ 97,344	\$ 282,344
						4/1/2007	170,000	110,875	280,875
						4/1/2008	175,000	105,775	280,775
						4/1/2009	180,000	99,650	279,650
						4/1/2010	185,000	93,350	278,350
						4/1/2011	190,000	86,875	276,875
						4/1/2012	195,000	80,225	275,225
						4/1/2013	205,000	72,913	277,913
						4/1/2014	210,000	65,225	275,225
						4/1/2015	220,000	57,350	277,350
						4/1/2016	225,000	49,100	274,100
						4/1/2017	235,000	40,663	275,663
						4/1/2018	245,000	31,263	276,263
						4/1/2019	255,000	21,463	276,463
						4/1/2020	265,000	11,263	276,263
							3,140,000	1,023,332	4,163,332
							192,116		192,116
							13,692,116	10,178,216	23,870,332
Accrued Employee Benefits									
TOTAL GENERAL OBLIGATION DEBT									
ENTERPRISE FUNDS									
1995 Silver Creek Drain Bonds	4.8 - 4.9%	5/1- 11/1	7/1/1995	11/1/2005	868,583	11/1/2005	39,565	969	40,534
							39,565	969	40,534
2003 Silver Creek Drain Refunding Bonds	2 - 4.25%	5/1- 11/1	9/30/2003	11/1/2015	981,824	5/1/06	43,616	29,289	72,905
						5/1/07	84,448	27,903	112,351
						5/1/08	87,232	25,862	113,094
						5/1/09	90,944	23,522	114,466
						5/1/10	92,800	20,879	113,679
						5/1/11	96,512	17,991	114,503
						5/1/12	99,296	14,832	114,128
						5/1/13	103,008	11,315	114,323
						5/1/14	107,648	7,469	115,117
						5/1/15	64,960	4,178	69,138
						5/1/16	67,744	1,440	69,184
							938,208	184,680	1,122,888
							977,773	185,649	1,163,422
TOTAL ENTERPRISE FUNDS									
TOTAL LONG-TERM OBLIGATIONS - REPORTING ENTITY							\$ 14,669,889	\$ 10,363,865	\$ 25,033,754

(Concluded)



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

September 17, 2005

Honorable Mayor and
Members of the City Council
City of East Grand Rapids, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Grand Rapids, Michigan, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of East Grand Rapids, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of East Grand Rapids, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.